Developing supplementary pensions and long-term retail investment

1. Framing the challenge: the pension gap, outcomes and trust

1.1 Setting the scene: addressing the pension gap and mobilising long-term capital in Europe

The Chair began by acknowledging that many EU citizens lack adequate provisions for old age. This is a long-term, politically sensitive issue with no quick fixes. There is also a shortage of risk-based capital in the EU. Pension funds are ideally suited to providing risk-bearing capital. Resolving the pension issue would benefit both citizens and businesses in Europe.

The panellists were invited to summarise their key message on this topic.

An official emphasised the importance of having sufficient assets to establish a deep and liquid capital market. Without this, insurance and pension products will not be attractive.

A consumer representative argued that acting in the best interests of savers should involve providing decent real net returns.

An industry representative stated that the objective is to substantially increase the total amount of supplementary pension savings across the EU.

A regulator indicated that, in order to close the pension gap, supplementary pensions must be reliable, offer value for money to beneficiaries and be backed by strong supervision.

An industry representative stated that the key question is how to turn short-term savings into the long-term investment that Europe needs.

An official argued that pension funds should take the lead in providing access to finance for strategic priorities.

An industry representative emphasised the importance of trusting in the power of markets.

These perspectives collectively highlighted the need to improve both the scale and the effectiveness of pension savings in Europe.

1.2 Improving real returns for savers: tackling costs and underperformance

1.2.1 Misaligned incentives and cost drag continue to erode long-term returns

A consumer representative explained that, despite recent market rebounds, the 10-year median real net return across supplementary pensions and long-term savings products remains around 0.3%, largely reflecting high costs. These costs are driven by misaligned incentives in distribution, with ESMA data showing that inducement agreements can account for a significant share of ongoing Undertakings for Collective Investment in Transferable Securities (UCITS) costs. In this context, it is paramount that supplementary pensions deliver good value.

1.2.2 PEPP simplification and better product design as levers to enhance value for money

A consumer representative noted that, regarding the Pan-European Personal Pension Product (PEPP), there is an absence of publicly available and quantitative evidence demonstrating that the previous 1% fee cap constituted a decisive barrier to entry. The proposed simplification is welcome, including the removal of mandatory financial advice and the introduction of a default lifecycle investment strategy with strong equity exposure.

Institutions for Occupational Retirement Provisions (IORPs) are important, as occupational pension funds generally perform better than Pillar 3 products. Increased flexibility in investment strategies is a positive development. Previous constraints led to overly conservative portfolios and suboptimal long-term returns. Better alignment of incentives is essential to improve pension adequacy. Improving outcomes for savers, combined with reforms such as auto-enrolment and more effective investment in the real economy, could support progress towards the savings and investments union (SIU). Well-designed PEPP default options can play a key role in increasing participation in long-term investment while also supporting "learning by doing" through simple and accessible investment frameworks.

1.3 Mobilising pension savings for the SIU: improving outcomes and restoring trust in long-term investment

A consumer representative suggested that pensions can help achieve the SIU if three cardinal mistakes from the past are avoided: complexity, high costs and underperformance for savers. The objective should be to mobilise capital and ensure that it delivers good net outcomes for citizens. Systemic underperformance must be addressed. If calibrated correctly, the PEPP default option could draw on the strengths of AP7 Såfa's institutional benchmark, particularly in terms of equity exposure, lifecycle design and low-cost implementation, helping to deliver better returns and mobilise savings that are currently lying idle in bank accounts. If pension funds strive to deliver better net outcomes for savers and implement good reforms while investing more effectively in the real economy, progress with the SIU should be possible.

1.4 Building trust in pension systems: governance, supervision and the Swedish experience

An official stated that aligning pensions with the objectives of the SIU is feasible, as demonstrated by

Sweden's approach. Building and maintaining trust is paramount. The protection of savers must never be compromised. Regulators should prioritise governance and supervision when addressing the pension gap. Even in a mature and well-functioning system such as Sweden's, past scandals involving pension providers have necessitated supervisory intervention. Maintaining trust requires a realistic approach to risk and transparency with savers regarding how issues are addressed.

With regard to retail savings, instruments such as the ISK are important as part of individuals' overall retirement income. All three pillars of the pension system are equally important and can collectively increase exposure to capital markets.

2. Fiscal discipline, structural reforms and EU initiatives

2.1 Designing scalable and efficient pension products: the PEPP and beyond

An industry representative noted the significant differences between Pillar 1, Pillar 2 and Pillar 3 arrangements across Europe. Recent developments include the introduction of auto-enrolment in Ireland. The success of the reforms will depend on clear and effective tax incentives.

2.1.1 Economic viability and Member State-driven success factors

An industry representative welcomed the measures aimed at making the PEPP financially viable, particularly the removal of the fee cap. The limited number of providers currently active in the market illustrates the shortcomings of the previous framework and the need to ensure the product's economic sustainability.

A shift towards lifecycle investment strategies instead of capital guarantees is needed, as these approaches enable higher equity allocations at earlier stages and contribute to long-term investment in the real economy. The revised PEPP creates opportunities for greater diversification, particularly through increased allocations to private and non-listed assets. The current 5% threshold is too low; comparable products in France can invest up to 15% in private assets. This allocation could evolve over the lifecycle, with higher exposure at earlier stages and lower exposure as retirement approaches.

2.1.2 Avoiding overly prescriptive value-for-money frameworks

An industry representative cautioned against replacing the 1% fee cap with an overly prescriptive value-for-money framework or a benchmark-based system. Such benchmarks could amount to indirect price regulation and risk undermining the viability of the PEPP. Excessive reliance on benchmark-based pricing could discourage value creation by deterring innovative products from entering the market. The success of the reforms will depend on clear and effective tax incentives, as well as Member States' ability to adapt frameworks to national specificities.

2.2 Rethinking value-for-money supervision: beyond benchmarks towards competition and cost transparency

An industry representative acknowledged that supervision of the industry is always necessary; the real question is how to implement this effectively. The best way to ensure value for money for investors is to ensure that they do not miss out on investment opportunities. Value assessment needs to be practical. There are significant concerns about how the benchmark will work in practice. Competition is the best way to ensure that prices go down. On average, the prices of actively managed UCITS funds in Europe are decreasing and are slightly below those of mutual funds in the US.

It will be difficult to implement a benchmark approach for PEPP. A value-assessment or peer-grouping approach is preferable to a strict administrative benchmark, as comparing products in different countries is complicated. For a value-assessment approach, it is important to consider the entire value chain, including producer and distribution costs. Currently, there is no clear breakdown of fees, which could cause issues when trying to make a workable comparison.

2.3 Supervision and value for money: ensuring sound outcomes in pension products

A regulator noted that, although supervisors play a key role, they cannot deliver positive retirement outcomes on their own and therefore require strong coordination with the industry.

2.3.1 Enhancing governance and flexibility in pension product design

A regulator highlighted that, regarding IORPs, stronger governance and enhanced monitoring of underperformance relative to benchmarks could improve retirement outcomes. Further progress is still needed to increase returns.

The current PEPP has seen limited uptake; the 1% fee cap was one relevant supply-side factor, but not the only, or necessarily decisive, cause one. Replacing the cap with a value-for-money framework is welcome. The move towards a more principles-based approach, combined with greater freedom in investment strategies and a shift from mandatory capital recoupment toward a default lifecycle strategy, is a positive development, but must be accompanied by strong supervision to safeguard long-term outcomes. Additional tools such as branding or labelling could enhance the visibility and attractiveness of the PEPP, particularly among younger savers.

2.3.2 Supervision across the lifecycle to ensure value for money

A regulator emphasised that closing the pension gap requires good products, a sound regulatory framework and effective supervision, and that maintaining trust implies ensuring that pension products remain reliable over very long-time horizons. Supervision should be a filter to help ensure that products not offering value for money do not enter the market. This should be complemented by ongoing comparative analysis and active supervisory engagement with providers, including adjustments to product features where necessary and, ultimately, the use of corrective measures or even withdrawal of products that cannot prove their costs and charges are proportionate and justified. The pan-European nature of the PEPP requires the development of new methodologies for assessing value for money, going beyond traditional national benchmarking approaches, as purely national benchmarks would not be appropriate for a cross-border product.

2.4 Lessons from the Swedish pension system: governance, trust and cost efficiency

An official explained that efforts have been made to examine the history of the Swedish pension system in order to identify the main factors behind its success that could be adopted by other Member States. Without an established and liquid equity market, it is challenging for pension providers to develop appealing products. However, building this type of market infrastructure cannot easily be replicated in the short term.

Low costs and professional investment management are two key features of the Swedish system. Two main factors have been particularly important in keeping costs low. Firstly, two of the largest occupational pension providers are governed by social partners and operate on mutual principles, with no external shareholders. Secondly, the part of occupational pensions that is open to individual choice is often managed through selection centres, allowing employees to choose from procured insurance products. The shift towards defined-contribution pension schemes is pivotal in the Swedish system's evolution.

2.5 Balancing EU action and national competences to advance pensions and retail investment

An official suggested that the EU package is a positive development, particularly in supporting the establishment of the SIU. EU initiatives must account for the differences between national pension systems, while key areas should remain within the competence of Member States. The guiding principle should be to combine respect for national competences with European action that delivers real added value, with a focus on high-impact cross-cutting measures supported by simplicity, transparency and appropriate financial allocation.

The value-for-money approach is welcome. There is a need to move beyond transparency towards a more effective assessment of outcomes for members. Spain is working towards introducing auto-enrolment mechanisms to promote pension funds.

There is a need to develop a broader retail investor base in Europe, drawing inspiration from models such as the UK ISA and the Swedish ISK; in Spain, work is ongoing on a savings and investment account, although this raises challenges within the national constitutional framework. Strengthening retail participation, supported by appropriate tax incentives, would help finance strategic priorities while enhancing Europe's competitiveness.

3. Scaling up: participation, markets and financing the economy

3.1 Scaling private pension savings to enhance long-term returns and financing capacity

An industry representative stated that participation, scale and long-term net outcomes are closely interconnected. The package is moving in a broadly positive direction. Although EU initiatives cannot replace national reforms, they can support structural changes and expand coverage across Member States. Strengthening collective occupational pension schemes is important.

3.1.1 Expanding coverage through structural reforms and auto-enrolment

An industry representative outlined three key recommendations. Firstly, supplementary pensions should be made compulsory for private-sector employees, ideally through agreements with social partners. Secondly, supplementary pensions should be mainstreamed across companies by embedding them more systematically at employee level. Thirdly, auto-enrolment should be combined with lifecycle investment strategies as the default option. This allows for greater exposure to equities at a younger age, supporting returns over time and enabling a gradual shift towards lower-risk assets as retirement approaches.

3.1.2 Enhancing outcomes through lifecycle strategies and collective investment

An industry representative noted that lifecycle strategies are usually designed to suit the risk profile of retail investors. They often represent an individual's first point of contact with financial markets. As these strategies are implemented within trusted frameworks, they can help to build confidence and encourage more dynamic investment behaviour over time. In this respect, investing within a structured and protective environment can play an important role in improving financial literacy through practical experience.

Increasing equity investment through private pension savings can support the financing of companies, including small and innovative firms. However, financing long-term investments, particularly through equity, may not always be low-cost. The objective should be to achieve efficiency gains through economies of scale, risk pooling and professional collective investment structures, thereby improving diversification and supporting better long-term outcomes.

The Chair noted that combining the power of markets with auto-enrolment would produce good results. The Netherlands, which has an auto-enrolment system, added another €200 billion worth of pension premiums over the last five years, despite the uncertainty in the markets.

3.2 Combining policy levers to unlock long-term savings and retail investment

An industry representative stated that the main mistake to avoid when designing frameworks to encourage long-term savings and investment would be to rely on a single policy lever. It is important to combine multiple policy tools, such as auto-enrolment, value-for-money frameworks, tax incentives and auto-escalation mechanisms, which have been effective in several jurisdictions. Successful examples such as Sweden and the United Kingdom demonstrate the impact of well-designed frameworks. Once these frameworks are in place, they encourage competition among private providers, who strive to make investment products simpler and more accessible. Failing to harness this competitive dynamic would represent a missed opportunity. New market players, including neo-banks, are driving innovation in user experience and making it significantly easier for individuals to start investing.

Combining simple savings and investment accounts with industry participants' capacity to innovate can transform participation in capital markets. Developments in countries such as Spain, Ireland and Poland illustrate this trend, demonstrating the potential for broader retail engagement in long-term investment.

3.3 Harnessing the power of markets within a sound regulatory and supervisory framework

3.3.1 The case for sustained market exposure over capital guarantees

An industry representative emphasised the need to continue embracing the power of markets, noting that Europe has historically had a strong preference for capital guarantees, which are often associated with lower long-term returns. In some Member States, market-based investment approaches are becoming more widely accepted, including in countries such as Germany.

Concerns remain regarding the risks faced by investors, particularly in cases of poor market timing. Investors entering the market at unfavourable times can still achieve significantly higher returns than by holding cash. For example, an initial investment of €35,000 could grow to around €155,000 over time, compared to less than €50,000 if held in cash, demonstrating the advantages of sustained exposure to financial markets.

3.3.2 Building investor confidence through education and policy frameworks

An industry representative stressed that policymakers, industry participants and other stakeholders have a shared responsibility to continue educating investors and building confidence in long-term investment. Policy frameworks should encourage exposure to capital markets, as this is a key driver of long-term wealth creation and more secure retirement outcomes for European savers.

3.4 Scaling private pension savings to support equity investment and long-term returns

An industry representative stated that integrating private pension savings into the mainstream represents a key opportunity to significantly boost equity investment. This can be combined with strong net long-term returns. Greater exposure to equities can support higher returns over time, as well as improving access to financing for companies. Financing SMEs through long-term equity investment is not always cost-effective. The objective should be to reduce costs progressively through economies of scale and professional collective investment structures. A variety of protective mechanisms could be implemented to support this approach.

3.5 Strengthening Pillar 2 and scaling pension funds' role in financing the economy

An official explained that, although the importance of the third pillar is acknowledged in Spain, reforms since the Toledo process of the 1990s have consistently sought to bolster Pillar 2. Measures such as reducing the maximum contributions to third-pillar personal pensions were intended to redirect savings towards occupational schemes, but they failed to deliver the expected results. This has reinforced the case for introducing auto-enrolment mechanisms.

As institutional investors, pension funds should play a stronger role in financing the economy. Achieving sufficient scale in both Pillar 2 and Pillar 3 will depend on appropriate tax incentives. Pension funds should diversify their investment strategies to include a greater allocation to equities and instruments while still focusing on their main goal of building retirement savings. The current package could help to advance the goal of strengthening Pillar 2.